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REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1996-1997

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered an advance copy of the report of the Executive Director of the United Nations Office of Project Services (UNOPS) on the revised budget estimates for the biennium 1996-1997 (DP/1996/36). During its consideration of this item, the Committee met with the Executive Director and his colleagues, who provided additional information.

2. The Advisory Committee notes from paragraphs 2-3 of the report of the Executive Director that during the first year of its existence UNOPS successfully applied its financial management model. Actual administrative expenditures and support income earned were in line with the original projections. Thus, in the 1994-1995 biennium, administrative expenditures were $55,614,692 (or $2,824,308 lower than the approved budget of $58,439,000), and actual income was $59,368,959 (or $114,959 higher than its projection of $59,254,000), resulting in an excess of income over expenditure of $3,754,267. The Committee was provided with a copy of the UNOPS certified financial statements for the biennium ended 31 December 1996.

3. As shown in tables 1 and 2 of document DP/1996/36, the Executive Director proposes a revised budget of $65,444,000 for 1996-1997, based on a total revised income projection of $67,189,000 for 1996-1997. The Advisory Committee notes from paragraphs 4 and 6 of document DP/1996/36 that the revised income projections for 1996-1997 have been upwardly adjusted by $5,670,000, as compared to the original projections of $61,519,000 in the budget estimates for 1996-1997 (DP/1995/60, table 1.a. The Committee was informed that the higher projection is the result mainly of the change in recording procedures of payments to the

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UNDP country offices for services provided to UNOPS, as well as interest income from investments of unspent income, which accrues to UNOPS, starting 1 January 1995, as a separate entity from UNDP. The Committee was further informed that, as a result of timing factors, the report on the revised budget estimates for 1996-1997 had not yet been endorsed by the UNOPS Management Coordination Committee (MCC) and was being submitted simultaneously to ACABQ and MCC.

4. The Advisory Committee notes from paragraph 6 (a) and table 1 of document DP/1996/36 that the total projected portfolio for the 1996-1997 biennium has been adjusted upward to a revised level of $1,288,443,000, with an estimated delivery at $918,299, as compared to the previous portfolio projection of $1,133,849 and estimated delivery of $810,247 in the budget estimates for 1996-1997 (DP/1995/60, table 1.b). The Committee welcomes these developments.

5. As indicated in paragraph 4 of document DP/1996/36, UNOPS previously reported payments to UNDP country offices as a reduction to income, rather than as an addition to administrative expenditures. The Advisory Committee agrees that disclosing these payments explicitly as expenditures, rather than debits to income, enhances the transparency of UNOPS financial transactions. The Committee understands that the procedure has been endorsed by the United Nations Board of Auditors.

6. As indicated in paragraph 6 (b) of document DP/1996/36, in 1995 the amount of $683,727 accrued to UNOPS as interest income. The Advisory Committee notes from the UNOPS financial statements that interest income, was earned on investments of the accumulated unspent income which totalled $10,238,363 as at 1 January 1995. In table 1, the Executive Director estimates that interest income will amount to approximately $1.4 million in the 1996-1997 biennium.

7. Upon inquiry, the Advisory Committee was informed that services provided by the UNDP field offices include the administration of local support staff, national professional project personnel, purchase of local supplies and equipment, local travel, etc.; furthermore, for services rendered under management service agreements and cost-sharing arrangements, UNOPS reimburses the country offices for the additional costs incurred by them in providing such services. The amount of reimbursement is negotiated with the resident representative concerned on a project-by-project basis. During 1995, UNOPS reimbursed UNDP country offices in the amount of $1,770,000. The Committee notes from paragraphs 7 and 8 of document DP/1996/36 that UNOPS estimates payments to be made to UNDP country offices to total $3.5 million over the 1996-1997 biennium.

8. As regards UNOPS reimbursement to UNDP headquarters organizational units for services rendered, the Advisory Committee welcomes the arrangements with the UNDP Division for Audit and Management Review (DAMR) to cover internal audit services. Upon request, the Committee was provided with a copy of the draft agreement with UNDP/DAMR and the 1996 audit work plan. UNOPS will provide UNDP/DAMR with the amount of $829,400 to cover the internal audit costs. The Committee was informed that, in the event that UNOPS requires services from the United Nations Office of Internal Oversight Services, this will be arranged by UNDP/DAMR on behalf of UNOPS.

9. With respect to services rendered by other UNDP headquarters organizational units to UNOPS, the Advisory Committee urges the Administrator and the Executive Director to expedite the negotiations that would result in an agreement for the reimbursement of costs related to the services provided. The Committee was informed that UNDP provides personnel administrative services with regard to UNOPS staff charged to the UNOPS administrative budget (other personnel are administered by UNOPS itself). Other services provided by UNDP include travel, information services, treasury, budgeting and accounting. The Committee recalls that it had pointed out that UNOPS should receive the best value for money for the administrative services provided by UNDP or, without duplicating existing infrastructures, UNOPS should explore the possibility of setting up in-house services for those that could be rendered in a more economical manner (DP/1995/45, para. 13).

10. As indicated in table 3, the UNOPS current staffing table includes 244 established posts (91 Professional and 153 General Service posts). The Advisory Committee notes that of these 244 posts, 189 posts are filled by regular staff under the 100 and 200 series of the United Nations Staff Rules, 21 posts are occupied by staff under contractual arrangements for activities of limited duration (ALD) under the 300 series of the United Nations Staff Rules, 25 posts are for staff under recruitment and 9 posts remain vacant.

11. The Advisory Committee recalls, from paragraph 18 of document DP/1995/60, that vacant posts are filled only when necessary and justified by demand and projected income. Given the fact that some of the new staff have been and will be recruited using the ALD contractual modality, the total number of established posts appeared to be in excess of the actual needs of UNOPS; in this regard, the Committee recalls that the Executive Director had intended to conduct an overall review of the established posts in the fall of 1995 to determine which posts could be abolished and to submit a proposal to the Executive Board in early 1996 (DP/1995/45, para. 8).

12. However, the Advisory Committee now notes from paragraph 12 of DP/1996/36 that the abolition of posts could restrict UNOPS ability to attract and/or accept candidates for assignments from within UNOPS and elsewhere in the United Nations system who are holding 100 and 200 series contracts. Under the circumstances, the Committee believes that, should the increases in the UNOPS portfolio of projects continue, it would not be prudent to reduce posts at this time. The Committee suggests that the matter be kept under review.

13. The Advisory Committee recalls that in order to provide personnel incentives and improve programme delivery, UNOPS was formulating a reward policy based on staff performance. In its previous report, the Committee had requested that in his next budget submission, the Executive Director should indicate the results of this policy (DP/1995/45, para. 12).

14. The Advisory Committee was informed that, based on the recommendations of a working group which included Professional and General Service staff members, as well as representatives of the UNOPS Administration, UNOPS is working on two initiatives in the human resources area: (a) a revised performance appraisal system and (b) an incentives/rewards system. The first initiative aims at significantly reducing the amount of time, effort, paperwork and money required

for implementation of the current UNDP-administered performance appraisal review, while increasing emphasis on qualitative evaluations and assessments by clients and team members. In the second initiative, various approaches are being considered to provide incentives for teams, linked to client satisfaction, that will foster the development of effective teamwork within the emerging new UNOPS. It is expected that a trial incentive programme will be in place by the end of 1996. This programme, the Committee understands, will operate within the parameters set by the International Civil Service Commission.

15. The Advisory Committee notes from paragraph 10 of document DP/1996/36 that UNOPS proposes to upgrade some 200 computers (150 in 1996 and 50 in 1997) at a cost of approximately $3,200 each. Upon inquiry, the Committee was informed that the long-standing UNOPS policy on technology upgrade has been to replace 20 per cent of UNOPS computers each year, so that each machine is replaced after five years. During its transition to a separate entity in 1994 and 1995, UNOPS chose to defer the computer upgrades that would have been done in those years. As a consequence, staff and the computer application in current use are functioning at less than full efficiency. The Committee has no objection to the proposal but cautions UNOPS to implement changes in its office automation programme in a cost-effective manner, in the context of a well-defined, long-term strategy.

16. The Advisory Committee notes from paragraph 247 of the report on the annual session of the Executive Board (DP/1996/19) that UNOPS proposes to relocate the Division of Procurement Projects to Copenhagen and the Rehabilitation and Social Sustainability Unit to Geneva, both in mid-1996. The Committee notes that information on organizational changes in UNOPS has not been included in the budget document. The Committee is of the opinion that the budget document should have contained this information.

17. Upon inquiry, the Advisory Committee was informed that the relocation of the Division for Procurement Projects was already initiated and is expected to be completed in September 1996. The Division will be located in the same premises as the Inter-Agency Procurement Services Office (IAPSO). The Government of Denmark has offered to cover the cost of the new premises and the relocation costs of the Division. The Government of Denmark will provide furnished and fully equipped office space free of rent on a permanent basis. The premises will have dedicated data and voice communication links between New York and Copenhagen, thus maintaining access to central databases. Video conference facilities in New York and Copenhagen will also be provided. The Government of Denmark will cover the operating cost of such a communication access as part of the facilities. The move will entail the relocation of three Professional and nine General Service staff members. The Government of Denmark has agreed to reimburse UNOPS for all expenses related to the relocation and will cover additional costs incurred over a five-year term. This includes additional staff costs, travel between New York and Copenhagen, possible relocation of staff back to New York and other costs arising from the need to mitigate the impact of disruption in delivery that could be caused by relocation of the Division. In total, the Danish Government offers to provide some $4 million to cover fully the relocation costs of the Division.

18. With regard to the relocation of the Rehabilitation and Social Sustainability Unit, the Advisory Committee was informed that, in line with the decentralization policy of UNOPS and based on a review of the Unit's portfolio for 1996 (expected to be in excess of $30 million, with significant additional demand in the pipeline), it was operationally advantageous to relocate the Unit in Geneva. The Unit works with a large number of United Nations agencies, non-governmental organizations and intergovernmental bodies based in Europe, the majority of which are in Geneva. The Advisory Committee was informed that several of them have made it clear that their interest in UNOPS services would be contingent upon the availability of UNOPS capacity in Geneva to provide services of the kind required for social rehabilitation projects. UNOPS will be relocating three Professional and three or four General Service staff members to Geneva and expects the Unit to be fully operational in August/September 1996. The Federal Authorities of Switzerland have agreed to provide rent-free space to the Unit for two years; furthermore, they will compensate UNOPS for moving costs and cost differentials over a two-year period. UNOPS expects that with the placement of this Unit in Geneva, UNOPS will gear itself to new clients and new business. Additional revenue, however, is not expected to accrue until 1997 and beyond.